

UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND

AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

YEARS ENDED JUNE 30, 2005 AND 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the accompanying statement of net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of June 30, 2005 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements and additional information of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2004, were audited by other auditors whose opinion dated October 25, 2004 on those statements and additional information was qualified because of the scope limitation described in the third paragraph.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note L, the Fund's third-party benefit claims processing function was not audited and we were unable to form an opinion regarding the amount of program benefits incurred in the accompanying statement of changes in net assets (stated at \$ 3,668,496 in 2005 and \$ 3,331,652 in 2004).

In our opinion, except for the effects on the June 30, 2005 financial statements of the matter discussed in the preceding paragraph – had program benefits been susceptible to satisfactory audit tests, the June 30, 2005 financial statements referred to in the first paragraph present fairly, in all material respects, the net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2005 and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2006 on our consideration of the United Teachers of New Orleans Health and Welfare Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information – schedule of expenses for June 30, 2005 – on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the year ended June 30, 2005 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated (except in relation to the matter discussed in paragraph 3) in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note M to the financial statements, on August 29, 2005, Hurricane Katrina impacted the New Orleans area resulting in significant flooding and hurricane damage. As further discussed in Note M to the financial statements, the State of Louisiana created a new "Recovery School District" in November of 2005 with responsibility for approximately 90% of the schools that were formerly under the control of the Orleans Parish School Board. The Orleans Parish School Board subsequently terminated most of its employees and discontinued making contributions to the Fund as of June 30, 2005.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC

Metairie, Louisiana

May 20, 2006

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Investments at fair value:		
U.S. Government securities	\$ 8,034,021	\$ 7,215,261
U.S. Agency securities	2,707,104	2,962,424
Money market funds	418,944	396,281
Total investments	<u>11,160,069</u>	<u>10,573,966</u>
Receivables:		
Due from Fringe Benefits - employee and dependent dental and vision premiums	160,669	430,307
Contributions receivable - Orleans Parish School Board	410,024	-
Accrued interest	96,300	91,381
Total receivables	<u>666,993</u>	<u>521,688</u>
Property and equipment:		
Land	211,773	211,773
Furniture and equipment (net of accumulated depreciation of \$ 259,537 in 2005 and \$ 258,958 in 2004)	4,192	4,771
Building (net of accumulated depreciation of \$ 494,297 in 2005 and \$ 459,106 in 2004)	913,384	948,575
Total property and equipment	<u>1,129,349</u>	<u>1,165,119</u>
Other assets:		
Prepaid expenses	7,016	1,083
Deposits	4,863	4,863
Cash in bank	2,252,571	2,427,935
Cash held by third party	226	226
Total other	<u>2,264,676</u>	<u>2,434,107</u>
Total assets	<u>15,221,087</u>	<u>14,684,880</u>
LIABILITIES:		
Accounts payable and accrued expenses	164,351	166,858
Bank drafts outstanding	135,559	178,679
Estimated claims incurred but not reported or proc.		
Dental and vision claims	579,900	541,800
Hospital income protection claims	39,200	25,400
Medical dollar account claims	199,900	165,600
Total liabilities	<u>1,118,910</u>	<u>1,078,337</u>
Net assets available for benefits	<u>\$ 14,102,177</u>	<u>\$ 13,616,543</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Additions to net assets attributed to:		
Investment income:		
Net realized/unrealized appreciation (depreciation) in fair value of investments	\$ (98,210)	\$ (350,326)
Interest earned	<u>516,274</u>	<u>334,096</u>
Total	418,064	(16,230)
Less investment expenses	<u>(41,654)</u>	<u>(38,433)</u>
Total	<u>376,410</u>	<u>(54,663)</u>
Contributions	4,980,423	5,089,415
Dental and vision premiums	1,004,304	997,773
Miscellaneous income	<u>5,330</u>	<u>2,348</u>
Total	<u>5,990,057</u>	<u>6,089,536</u>
Total additions	<u>6,366,467</u>	<u>6,034,873</u>
Deductions from net assets attributed to:		
Payments for:		
Dental and vision program benefits	2,755,781	2,666,181
Medical dollar account benefits	982,325	831,967
Hospital income protection benefits	207,959	122,385
Insurance premiums for life and health benefits	649,903	688,442
Insurance administrative fees	87,284	87,393
Teacher's centers	<u>563,305</u>	<u>838,769</u>
Total operating expenses	<u>5,247,557</u>	<u>5,033,137</u>
Administrative expenses	<u>633,276</u>	<u>664,100</u>
Total deductions	<u>5,880,833</u>	<u>5,697,237</u>
Net increase (decrease)	485,634	337,636
Total net assets - beginning of the year	<u>13,616,543</u>	<u>13,278,907</u>
Total net assets - end of the year	<u>\$ 14,102,177</u>	<u>\$ 13,616,543</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

A. Description of fund:

General

The following description of the United Teachers of New Orleans Health and Welfare Fund (the "Fund") provides only general information. Participants should refer to the Fund agreement for a complete description of the Fund's provisions.

The Fund is a Taft-Hartley Fund created under the authority of Section 1224 of Title 17, Louisiana Revised Statutes. The Fund was organized on January 28, 1980 upon execution of a "declaration of trust" (Trust) to receive and invest contributions from the Orleans Parish School Board made under the Collective Bargaining Agreement in effect between the Orleans Parish School Board and the United Teachers of New Orleans Bargaining Unit. The current agreement is effective from July 1, 2003 through June 30, 2006. The Fund provides members of the bargaining unit with a program of dental, vision, hospital income protection, life, disability, a medical dollar account and other participant benefits.

Although the Orleans Parish School Board appoints half of the Trustees of the Fund, the School Board is not financially accountable for the Fund; all assets and income of the Fund are held for the exclusive benefit of the participants and cannot revert to the School Board.

Benefits

The Fund provides a program of health, dental, vision, hospital income protection, disability, life and other related benefits due to sickness, disability or death and also provides professional development programs and activities, which relate to student instruction.

The various welfare benefits are provided through a multi-option plan where participants elect which benefit module they would like. The benefit modules are approximately equal in cost. The life, AD&D, and disability benefits are fully insured while others are self-insured. Fringe Benefits Management Company and Total Benefit Services, Inc. are the third party administrative companies that administer various segments of the Fund programs. The Fund does not pay any of its own claims, but the responsibility for payment of self-insured claims is retained by the Fund.

Effective September 1, 2001, a Medical Dollar Account was established for participants. Each participant can file for reimbursement of eligible medical expenses once their expenses exceed \$20. The Medical Dollar Accounts provide for a limit on reimbursement of \$ 400 per participant during the 2004/2005 school year and \$ 300 per participant during the 2003/2004 school year.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

Description of fund (continued):

Benefits (continued)

The dental and vision plan is self-funded. The dental and vision claims are processed by a third party administrator, but the responsibility for payment of claims is retained by the Fund. The Fund also has established a PPO program to provide dental and vision discounts to the members.

The hospital income protection program is self-funded. The hospital income protection claims are processed by a third party administrator, but the responsibility for payment of claims is retained by the Fund.

During 1988, the Fund assumed responsibility for the operations of the Center for Professional Growth and Development established to assist participants in their professional development.

Contributions

The majority of the Fund's support comes from the annual contribution (made in monthly installments) from the Orleans Parish School Board per the Collective Bargaining Agreement. For the years ended June 30, 2005 and June 30, 2004, the Fund received an annual contribution of \$ 790 and \$ 778, respectively, for every employee who is a member of the bargaining unit. The contribution is based on the number of employees employed thirty days after the start of the school year.

Cash held by third party

The Fund had arrangements whereby, on a monthly basis, the Fund deposited cash into checking accounts that are held by third parties. During the year ended June 30, 2003 the disbursements were combined with the fund's operating account under a cash management program.

B. Summary of significant accounting policies:

The financial statements of the United Teachers of New Orleans Health and Welfare Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Health and Welfare Benefit Funds, and in accordance with the terms of the trust agreement. A summary of the Fund's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

Summary of significant accounting policies (continued):

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting.

Revenue recognition

The Fund recognizes revenue recorded as contributions and premium income based on census information received from the Orleans Parish School Board. The School Board has not been able to provide accurate and current census information due to problems with its computer system. The amounts necessary to adjust the financial statements if current and accurate census data were provided is not determinable. However the Fund's management does not believe these differences would be material to the financial statements.

Valuation of investments

The Fund's investments are states at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year.

Receivables

The Fund considers amounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (ranging from 5 – 40 years) on a straight-line basis. Depreciation expense was \$ 35,770 for each of the years ended June 30, 2005 and 2004.

Fund benefits

Fund liabilities for dental, vision, prescription drugs, hospital income protection and medical dollar account claims incurred but not reported or processed as of June 30, 2005 and June 30, 2004 are estimated by the Fund's consultant.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

C. Use of estimates in preparation of financial statements:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Termination of the Fund:

The term or existence of the Fund (or "Trust") is considered indefinite as authorized by the Declaration of Trust executed January 28, 1980. However, the Fund is terminated when there is no longer in effect an agreement between the Orleans Parish School Board (the "School Board") and the United Teachers of New Orleans (the "Union") which requires School Board payments for the purposes provided by the Declaration of Trust and when the Funds have been exhausted; unless the School Board, at its sole discretion, unilaterally decides to continue making contributions to the Fund. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Trust and shall be used until exhausted for that purpose.

E. Concentrations of credit risk:

The Fund maintains cash balances at several banking institutions and brokerage institutions. The Federal Deposit Insurance Corporation insures accounts with balances up to \$ 100,000 at each banking institution. The accounts at the brokerage institution are insured by the Securities Investment Protection Corporation up to \$ 100,000 (cash) and up to \$ 500,000 (securities) with the remaining balance being fully insured by the brokerage institution through private insurance. At June 30, 2005, the Fund's uninsured cash balances totaled approximately \$ 2,624,173; during the fiscal year ended June 30, 2005 the Fund's bank pledged investment securities to cover the fund balances in excess of the FDIC limit.

F. Concentrations revenue:

The Fund receives a substantial amount of its revenue from contributions under a collective bargaining agreement with the Orleans Parish School Board and premium payments for insurance policies for employees of the School Board. If this revenue were to be discontinued the Fund's operations would be significantly impacted (see note M).

G. Investments:

Investment management companies hold the Fund's investments. The following schedules reflect the cost and fair market value of the investments at June 30, 2005 and 2004, respectively:

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

Note G - Investments (Continued):

Investment Type	Face Amount	Rate	Maturity	2005 Cost	2005 Market
<u>Cash equivalents:</u>					
Money market funds - government	n/a	n/a	n/a	\$ 418,944	\$ 418,944
<u>U.S. Treasury Notes:</u>					
U.S. Treasury Note	\$ 300,000	1.87%	12/31/05	300,094	297,833
U.S. Treasury Note	300,000	2.62%	11/15/06	302,391	296,145
U.S. Treasury Note - IPS	1,027,367	3.37%	01/15/07	1,179,379	1,115,532
U.S. Treasury Note	555,000	3.00%	02/15/08	566,750	546,414
U.S. Treasury Note	925,000	2.63%	05/15/08	933,145	899,415
U.S. Treasury Note	225,000	3.13%	09/15/08	230,414	221,308
U.S. Treasury Note	400,000	4.75%	11/15/08	450,438	413,748
U.S. Treasury Note	1,100,000	5.50%	05/15/09	1,264,838	1,173,380
U.S. Treasury Note	1,450,000	6.50%	02/15/10	1,628,531	1,619,461
U.S. Treasury Note	200,000	3.13%	04/15/09	199,125	196,124
U.S. Treasury Note	150,000	5.75%	08/15/10	166,830	164,109
U.S. Treasury Note	100,000	3.13%	09/15/08	100,000	98,359
U.S. Treasury Note	350,000	2.25%	04/30/06	345,119	346,514
U.S. Treasury Note	350,000	3.00%	12/31/06	349,241	346,897
U.S. Treasury Note	300,000	3.38%	02/28/07	297,398	298,782
Total U.S. Treasury Notes	n/a	n/a	n/a	8,313,693	8,034,021
<u>U.S. Agencies Discount Notes:</u>					
FHLB Note	300,000	2.12%	11/05/05	300,234	298,500
FHLB Note	300,000	2.87%	09/15/06	302,016	296,813
FHLB Note	500,000	3.00%	11/09/06	500,000	494,725
FHLM Note	300,000	2.50%	12/04/06	301,336	294,704
FHLM Note	540,000	2.87%	12/15/06	543,913	533,250
FHLB Note	500,000	2.05%	01/15/07	500,000	491,360
FHLB Note	300,000	3.50%	11/15/07	301,452	297,752
Total U.S. Agency Notes	n/a	n/a	n/a	2,748,950	2,707,104
Grand totals	n/a	n/a	n/a	\$ 11,481,587	\$ 11,160,069

During the year June 30, 2005 the Fund's investments held during the year depreciated in value by \$ 75,344. Proceeds received from the sale of investments during 2005 were \$ 1,400,025 with realized gains in the amount of \$ 295 and realized losses in the amount of \$ 23,161.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

Note G - Investments (Continued):

Investment Type	Face Amount	Rate	Maturity	2004 Cost	2004 Market
<u>Cash equivalents:</u>					
Money market funds - government	n/a	n/a	n/a	\$ 396,281	\$ 396,281
<u>U.S. Treasury Notes:</u>					
U.S. Treasury Note	\$ 100,000	1.62%	01/15/05	99,814	99,969
U.S. Treasury Note	100,000	1.50%	02/28/05	99,890	99,844
U.S. Treasury Note	300,000	1.87%	12/31/05	300,094	297,583
U.S. Treasury Note	400,000	3.25%	08/15/07	421,438	400,376
U.S. Treasury Note	300,000	2.62%	11/15/06	302,391	298,032
U.S. Treasury Note - IPS	1,027,367	3.37%	01/15/07	1,125,876	1,118,937
U.S. Treasury Note	555,000	3.00%	02/15/08	566,750	547,369
U.S. Treasury Note	925,000	2.63%	05/15/08	933,145	896,094
U.S. Treasury Note	225,000	3.13%	09/15/08	230,414	220,781
U.S. Treasury Note	400,000	4.75%	11/15/08	450,438	417,752
U.S. Treasury Note	1,100,000	6.50%	05/15/09	1,264,838	1,184,568
U.S. Treasury Note	1,450,000	6.50%	02/15/10	1,628,531	1,633,976
Total U.S. Treasury Notes	n/a	n/a	n/a	7,423,819	7,215,261
<u>U.S. Agencies Discount Notes:</u>					
FHLB Note	300,000	3.25%	11/15/04	304,974	302,016
FNMA Disc Note	250,000	Discount	01/07/05	247,767	246,830
FHLB Note	300,000	2.12%	11/05/05	300,234	298,220
FHLB Note	300,000	2.87%	09/15/06	302,016	298,829
FHLB Note	500,000	3.00%	11/09/06	500,000	497,610
FHLM Note	300,000	2.50%	12/04/06	301,335	295,031
FHLM Note	540,000	2.87%	12/15/06	543,914	535,105
FHLB Note	500,000	2.05%	01/15/07	500,000	488,783
Total U.S. Agency Notes	n/a	n/a	n/a	3,000,240	2,962,424
Grand totals	n/a	n/a	n/a	\$ 10,820,140	\$ 10,573,966

During the year June 30, 2004 the Fund's investments held during the year depreciated in value by \$ 201,326. Proceeds received from the sale of investments during 2004 were \$ 5,374,969 with realized gains in the amount of \$ 0 and realized losses in the amount of \$ 149,000.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

H. Net assets, end of year:

The Fund's Board of Trustees has designated the use of net assets available for benefits of the fund. The net assets available for benefits as of June 30, 2005 and 2004 are designated as follows:

	<u>2005</u>	<u>2004</u>
Claims fluctuation reserve	\$ 935,000	\$ 840,000
Contingency reserve	3,010,000	2,850,000
Property reserve	1,129,349	1,165,119
Undesignated	<u>9,027,828</u>	<u>8,761,424</u>
Total net assets – end of year	<u>\$ 14,102,177</u>	<u>\$ 13,616,543</u>

I. Contributions:

Contributions from the Orleans Parish School Board and the United Teachers of New Orleans (UTNO) Bargaining Unit for the years ended June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Orleans Parish School Board	\$ 4,963,851	\$ 5,071,381
UTNO Bargaining Unit	<u>16,572</u>	<u>18,034</u>
Total net assets – end of year	<u>\$ 4,980,423</u>	<u>\$ 5,089,415</u>

Contributions from the Orleans Parish School Board are based on the number of employees covered by the Collective Bargaining Agreement.

J. Tax status:

The Fund is qualified pursuant to Section 501 (c)(9) of the Internal Revenue Code, and accordingly is exempt from income taxes as a voluntary employee benefit association. The Fund has obtained a favorable tax determination letter from the Internal Revenue Service. The Fund's management believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Fund's financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

K. Retirement benefits:

The majority of the Fund's employees are covered under the State of Louisiana Teachers Retirement System. The covered employees are required to contribute 8% of their covered salary and the Fund (employer) is required to contribute an employer contribution. The Fund contributed 15.5% and 13.1% of covered payroll for the year ended June 30, 2005 and 2004 respectively. The employer contribution to the system amounted to \$ 57,191 and \$ 50,765 for the years ended June 30, 2005 and 2004, respectively.

The Fund provides for retirement benefits for its non-qualifying employees under a separate defined contribution plan effective July 1, 1997. The Fund's contribution for this plan was \$ 11,210 and \$ 11,566 for the years ended June 30, 2005 and 2004, respectively. All of the Fund's employees are covered under the Federal Social Security System.

L. Third party benefit claims:

The Fund uses third party benefit claims administrators to administer various segments of the Fund's programs. The Fund's third party benefit claims processing function was not audited because the program benefits were not susceptible to satisfactory audit tests. The total amount of program benefits included in the statement of changes in net assets available for benefits is recorded in the financial statements as follows:

	<u>2005</u>	<u>2004</u>
Dental and vision program benefits	\$ 2,756,781	\$ 2,666,181
Service fees	<u>(214,331)</u>	<u>(221,881)</u>
Net dental and vision program benefits	<u>2,542,450</u>	<u>2,444,300</u>
Medical dollar account benefits	982,325	831,967
Service fees	<u>(64,238)</u>	<u>67,000</u>
Net medical dollar account program benefits	<u>918,087</u>	<u>764,967</u>
Hospital income protection benefits	<u>207,959</u>	<u>122,385</u>
Total program benefits, net of service fees	<u>\$ 3,668,496</u>	<u>\$ 3,331,652</u>

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

M. Subsequent events:

On August 29, 2005 Hurricane Katrina impacted the city of New Orleans resulting in significant flooding and hurricane damage. The Fund's building, furniture and equipment suffered significant damages. The Fund's management is negotiating with insurance companies and other agencies to recover these damages. However, as of the date of this report it is not clear how much the Fund will recover. Also, it is uncertain whether a material write-down of assets will be required.

In November of 2005 the State of Louisiana created a "Recovery School District" that has responsibility for 112 schools formerly controlled by the Orleans Parish School Board. As a result of this legislation the School Board terminated the majority of its employees. The School Board also stopped making its contributions under the Collective Bargaining Agreement as of June 30, 2005 – no contributions have been made subsequent to that date as of the date of this report.

The Fund's management has notified members that benefits will be extended to all employees who were eligible, prior to Hurricane Katrina. The Fund's management will monitor the Fund's financial condition, future developments of the Orleans Parish School Board and the conditions in which schools will be opened in Orleans Parish in considering future eligibility requirements and related benefits for members.

ADDITIONAL INFORMATION

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

ADDITIONAL INFORMATION

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Dental and vision program benefits:		
Claims	\$ 2,542,450	\$ 2,444,300
Servicing fees	214,331	221,881
Total dental and vision program benefits	<u>2,756,781</u>	<u>2,666,181</u>
Medical dollar account:		
Claims	918,087	764,967
Servicing fees	64,238	67,000
Total medical dollar account	<u>982,325</u>	<u>831,967</u>
Other program benefits:		
Hospital income protection benefits	207,959	122,385
Insurance premiums for life benefits	367,119	367,969
Insurance premiums for health benefits	282,784	320,473
Insurance administration fees	87,284	87,393
Teacher's centers	563,305	636,769
Total other program benefits	<u>1,508,451</u>	<u>1,534,989</u>
Administrative expenses:		
Salaries	154,969	157,239
Accounting and auditing	21,225	25,788
Automobile	640	456
Bank charges	295	159
Benefits, consulting and actuarial	55,204	45,411
Board meeting expenses	5,566	7,379
Books and publications	2,743	3,015
Depreciation	35,770	35,770
Fringe benefits	85,043	89,048
Health reports	8,600	-
Insurance and bonds	16,822	11,804
Legal	32,010	27,446
Maintenance	56,183	86,189
Miscellaneous	110	3,420
Payroll taxes	40,002	43,069
Postage	16,963	20,088
Printing	12,696	25,429
Professional education conferences	33,276	35,959
Supplies	18,488	13,937
Telephone	10,075	11,138
Utilities	26,597	21,356
Total administrative expenses	<u>633,276</u>	<u>664,100</u>
Total expenses	<u>\$ 5,880,833</u>	<u>\$ 5,897,237</u>

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Hienz & Macaluso LLC

Certified Public Accountants

ROBERT W. HIENZ, C.P.A.
ANTHONY J. MACALUSO, JR., C.P.A.

DAVID V. ERNST

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Independent Auditor's Report
on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund"), as of and for the year ended June 30, 2005, and have issued our report thereon dated May 20, 2006, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-2, 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we believe that of the reportable conditions described above – item 2005-2 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2005-2 and 2005-3.

This report is intended solely for the information of United Teachers of New Orleans Health and Welfare Fund and its management, federal and state awarding agencies and pass-through entities and the Legislative Auditor of Louisiana and is not intended to be, and should not be, anyone other than those specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
Metairie, Louisiana
May 20, 2006

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

We have audited the basic financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of and for the year ended June 30, 2005, and have issued our report thereon dated May 20, 2006, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2005 resulted in a qualified opinion, as stated above.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control:

Material Weakness - **YES**

Other Conditions - **YES**

Compliance:

Compliance Material to the Financial Statements - **YES**

b. Federal Awards:

Not applicable

Section II - Financial Statement Findings

Finding 2005-1 Enrollment Census:

As noted in the prior audit (item 04-02), the Fund relies on enrollment information provided by the Orleans Parish School Board. The School Board has not been able to provide current and correct census information due to problems with its computer system. We recommend the Fund continue to work with the School Board to correct this problem.

Finding 2005-2 Accounting Records:

This is an internal control and compliance finding.

Accounting records including vendor invoices, remittance advices and other related accounting data for certain transactions could not be produced by the Fund. This impacted our ability to perform tests on transactions that occurred during the year ended June 30, 2005 related to compliance and other matters and our consideration of internal controls over financial reporting. The accounting records were destroyed during Hurricanes Katrina and Rita after the Fund's offices encountered significant flooding.

We recommend the Fund continue to develop procedures that will further reduce the risk of loss of accounting records from potential future disasters, such as electronic storage of records, for example.

Finding 2005-3 Laws affecting Louisiana Government:

This is an internal control and compliance finding.

As noted in the prior audit (item 04-01) the Fund does not comply with Louisiana Government's public records regulations concerning the following areas:

- public bid law
- budgeting – submission and public participation
- open meetings – notices of meetings and official journals

The Fund believes that although it is subject to legislative oversight and the legislative auditor's review, it is not subject to the Public Bid Law, the Open Meetings Law and the budgeting provisions, which are applicable to public bodies.

We recommend that the Fund obtain a final determination from federal and/or state authorities regarding this matter and abide by all applicable laws and regulations.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

Section IV - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2005.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

Section I – Internal Control and Compliance Material to the Financial Statements

Item 04-02 Enrollment Census – repeated in 2005, see Finding 2005-1

Item 04-03 Organizational structure – resolved. The Fund has procedures in effect to mitigate the control issues regarding the size of its office staff.

Item 04-04 Fiduciary insurance coverage – resolved. The Fund has obtained and continues to maintain fiduciary insurance coverage.

Item 04-01 Laws affecting Louisiana Government – repeated in 2005, see Finding 2005-3.

Section II – Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III – Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2004.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005**

LAW OFFICES

WEILER & REES LLC

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PAUL DAMIAN REES, LL.M.^{*}
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May 31, 2006

Via fax and U.S. Mail

Robert W. Hienz, C.P.A.
Hienz & Macaluso, L.L.C.
110 Veterans Memorial Blvd.
Suite 170
Metairie, LA 70005

Re: Management Response to Audit Report

Dear Mr. Hienz:

We acknowledge receipt of the audited financial statements of the United Teachers of New Orleans Health and Welfare Fund (the Fund) as of and for the year ended June 30, 2005 and your audit opinion letter dated May 20, 2006. The Fund has asked me to respond to your letter.

Enrollment Census.

The Fund is dependent on enrollment data it receives from the Board. The Fund receives this enrollment data indirectly from the Board. It receives this enrollment data through Fringe Benefit Management Company. Fringe Benefit Management Company has undertaken the enrollment for the Board, as a third party administrator, and collects this data. The Fund receives contributions from the Board based on the Board's census of the number of bargaining unit members employed as of thirty days after the beginning of the school year. The labor agreement calls for a specified dollar contribution for each eligible bargaining unit member employed as of this date. The Fund has no independent control over the enrollment data.

The Board has been experiencing difficulties with its computer system for some time and has, unfortunately, in the past, not been able to provide correct and current enrollment data. Sometime prior to June 30, 2005, when the Board retained the services of The Alvarez & Marsal Group, current enrollment data was provided. Sometime later, after the retaining of The Alvarez & Marsal Group, the Board was able to generate a report showing timely additions and deletions of employees on a monthly basis. This information was provided through Fringe Benefit Management Company to the Fund.

Robert W. Hienz, C.P.A.
Hienz & Macaluso, L.L.C.
May 31, 2006
Page 2

Accounting Records.

The Fund had only three full time employees prior to hurricane Katrina. After hurricane Katrina, the Fund has only one full time employee.

Hurricane Katrina destroyed the records of the Fund by flooding the Fund office. The small size of the staff limits the amount of independent control that can be provided by the staff. Hurricane Katrina, obviously, has only made this problem more difficult. Staff has no authority to sign any check. However, the Fund's trust document requires the signature of one union trustee and one management trustee on all checks. Established procedures require that the trustees be provided with documentation substantiating all expenditures when checks are submitted for their signature. This expenditure control, required by the trust document, ensures satisfactory control of expenditures from the Fund.

Compliance with Laws Affecting Louisiana Government.

The Fund does not comply with certain laws affecting Louisiana government in the areas of (i) Public Bid Law, (ii) budgeting - submission and public participation, (iii) Cash management - (security for deposits) and (iv) Open meetings, notice of meeting and official journals. As noted in your audit opinion letter prior to the enactment of LA. R.S. 17:1224.E, which expressly made trusts such as the Fund subject to legislative oversight and the legislative auditor's review, the Attorney General of the State of Louisiana had expressed the opinion, "Qualifying school boards can make contributions of public funds to a trust authorized by LA R.S. 17:1224 the funds so contributed are not subject to audit pursuant to R.S. 24:513 and the Louisiana Governmental Audit Guide because they are not held in a fiduciary capacity by the school boards."

The Fund is not a "public body" as defined in LA. R.S. 42.4.2A.(2). The majority of the Fund's funding comes from the Orleans Parish School Board (the "Board"), though a substantial amount comes from participant contributions. The funding by the Board is pursuant to a labor agreement entered into as between the Board and the United Teachers of New Orleans (AFT; AFL-CIO/LFT). The Fund is a Taft Hartley Fund and no Fund assets can ever revert back to the Board. The funds are not Board funds, but are held by the trustees in a fiduciary capacity for the exclusive benefit of participants.

The above referenced statutes are applicable to public bodies. As such they are inapplicable to the Fund and there is no requirement for the Fund to comply with these statutes. In conversations with your auditor, Robert W. Hienz, CPA, he indicated that the format of the audit requires a comment as to compliance with these statutes. The comment is so noted and the Fund thinks no further response on this matter is required.

Robert W. Hienz, C.P.A.
Hienz & Macaluso, L.L.C.
May 31, 2006
Page 3

Schedule of Prior Years' Findings for the Year Ending June 30, 2005.

Section I - Internal Control and Compliance Material to the Financial Statements

Item 04-02 Enrollment Census - see Item 1 in this letter.

Item 04-03 Organizational structure - resolved.

Item 04-04 Fiduciary insurance coverage - the Fund has obtained insurance coverage.

Item 04-01 Laws affecting Louisiana Government - see Item 3 in this letter.

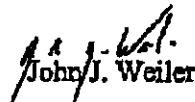
Section II - Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

A management letter was not issued in connection with the audit.

Sincerely yours,


John J. Weiler

JJW/ehk

Enc.

cc: Board of Trustees
Mrs. Gail Saizan
Ms. Robin J. Dusang
Mr. A. Michael Lawrence
Mr. David Hanley